
7th Strategy Workshop for the Future of Jeju Tourism

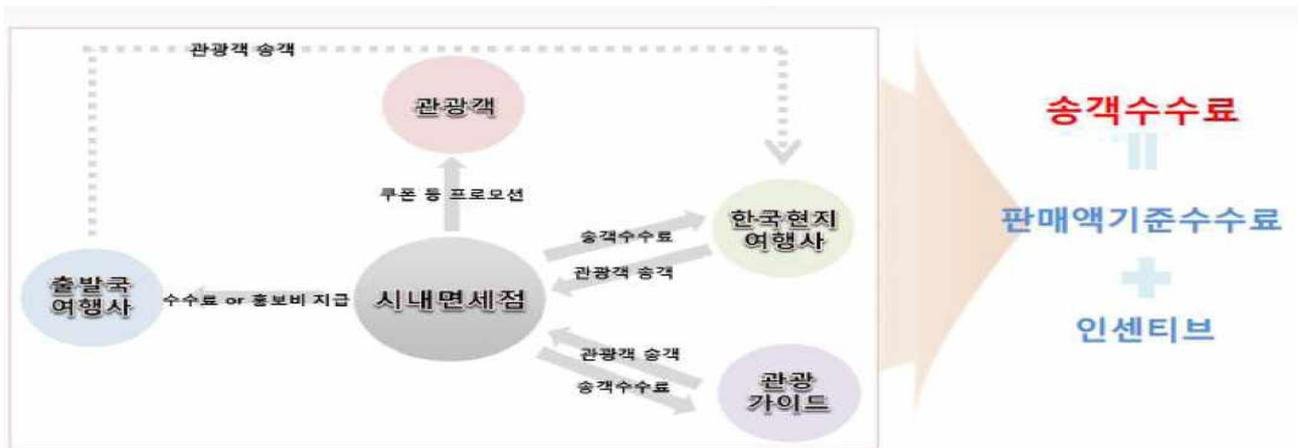
Seeking Ways to Improve Low-Priced Package Tour Products for the Qualitative Growth of Tourism in Jeju

July 25, 2016

■ Presentation: Tourism industry's tasks to improve price structure - focusing on the commission fee to attract tourists

○ Presenter: Noh Hee-Seup (Information Convergence Officer, Planning and Coordination Office of Jeju Special Self-Governing Province.)

- In the tourism industry, how we may solve problems incurred due to low-priced tour products is emerging as a main agenda item. There is a stronger willingness to eradicate unhealthy low-priced tour products among the industry's stakeholders, such as Trade Investment Promotion Councils.
- What drives such low-priced tour products including excessive competition of Chinese-specialized tour agencies, and the small size of the tour industry. Since March 2016 when the government announced its policy to improve the Chinese group tour market, as a follow-up action, crackdowns on such unhealthy business practices have been intensified.
- When we look into the trends of inbound travelers, shopping takes up the largest share of such inbound travelers' activities in Korea. Chinese tourists are the largest customer base of duty free stores within cities. And a significant portion of the duty free revenues are generated from such foreign travelers' spending.
- As for the distribution and payment structure of duty free stores and its stakeholders, we can identify the positive and negative parts of the commission fees paid to the tour agencies as a reward for securing customers. The positive side is that the commission is serving as a kind of subsidiary for tour products and helps the promotion of shopping tourism by enhancing its competitiveness. The negative side is that the commission drives the number of low-priced products relying on the commission fees, deteriorating business operation of shops, and increasing the dependency of tour agencies to duty free stores.



시내면세점 Duty free stores in Jeju
 출발국 여행사 Departing country's tour agency
 수수료 or 홍보비 지급 Pay commission or promotion reward
 관광객 Tourists
 쿠폰 등 프로모션 Coupon and promotions
 한국 현지 여행사 Korean tour agency
 관광가이드 Tour guide
 송객수수료 Commission fee
 관광객 송객 Send tourists

Commission Fee
 =Commission+incentives

- By analyzing similar cases, I'd like to suggest the following agendas and policy ideas. We should consider the agenda of whether the commission fee became a tool of "abuse in the market dominant position" by tour agencies, and the relationships between the commission fee and the benefits for customers. Also, I'd like to suggest that we focus on improving Korean shopping tourism's competitiveness by referring to the exemption of consumption tax in Japan (duty free products are the same products as the ones sold to Japanese tourists in the same store), and Taiwan's high quality tour product review system which helped improve the quality of inbound tour products. My suggestion is to regulate the commission fee with a commission fee monitoring system and I think research should be done to improve the competitiveness of shopping for tourists.

■ DISCUSSION

- Master: Hong Seung-Hwa (Tourism Business Professor, Jeju National University)
 - I would like to thank the presenter and all of the panel members for this discussion. Now we'd like to start our discussion. And I'd like to additionally ask for the opinions of experts on the low-priced tour products' commission fees.
- Jung Gi-Jung (Head of Asia and Middle East Team, Overseas Marketing Department of Jeju Tourism Organization)

- Recently the number of Southeast Asian inbound tourists has been increasing and the majority of their activity in Jeju is shopping. Their shopping is focused on the purchase of health supplement products and this type of shopping trend results in significant problems of commission fees.

- Oh Chang-Hyun (Head of Tourism Industry Department, Jeju Tourism Organization)
 - Commission issues in Jeju have been continuously criticized. In particular, such commissions are now being adopted in tourist restaurants, accommodations, and even in general businesses.
 - To point out the commission fee issue, we need to determine whether the commission is having a negative impact on tourists. Apart from shopping such as duty free stores, we need to consider overall commission issues throughout the industry.

- Jin Jung-Il (Officer of Tourist Police Department, Self-governing police of Jeju Special Self-Governing Province)
 - From the start of this year, Jeju Tourist Police were established. They crackdown on the unfair practices such as checking whether price tags are attached to the products in shopping centers. Other than commission fees, there are several problems with shopping tourism.
 - I think such issues can be resolved when the tourism industry, the provincial government, the Jeju Tourism Organization, and academics work together.

- Kim Joo-Nam (Managing Director of Lotte Duty Free)
 - We need to approach the commission fee separately from rebates. Of course, there should also be discussions on adequate commission fees. Businesses in Jeju are also discussing amongst themselves on the adequate level of commission fees.
 - But, I'd like to mention that the commission fees are not the direct driver of low-priced tour products. The competitiveness of the tourism industry needs to be improved through our fundamental efforts.
 - We all know that there are problems with the commission fees and we are also working on reducing the unnecessary paid commissions. But to solve the problem regarding the commission fee, we need cooperation from the Chinese tour agencies in mainland China, rather than duty free stores. In other words, by only discussing the issue among Korean business and industry insiders, we cannot find a fundamental solution. In this regard, apart from the commission fee, our baseline efforts to improve our tourism competitiveness are required.

- Bae Seung-Hwan (CEO of Silk International Tour Agency)
 - All policies have positive and negative effects. I think we need to approach the commission fee from this type of perspective. One thing I want to point out is that I don't think the commission fee is the direct reason of increasing number of low-priced tour products.

- Jang Ji-Yong (CEO of Ceri World)
 - The low-priced tour products are generated due to heated competition. To solve problems incurred due to the cheap products, the industry's overall efforts to convert such products into premium products, by simply not focusing on the commission fee.

- Kim Bong-Gi (Head of Jeju Duty Free Store, Jeju Tourism Organization)
 - There was a precedent of the government's direct restriction on the commission fee when there was excessive competition among shops. (2014, foreigner-targeted souvenir shop case) We need to check whether the government is allowed to set the criteria of commission fee.
 - In Seoul, there are many duty free stores which naturally cause heated competition among them. But in Jeju, only three duty free stores exist within the downtown area so efforts can be done to avoid such bloody struggles.

- Kim Nam-Jin (Vice Director General of Jeju Tourism Association)
 - In case of Chinese outbound tour products, when we compare the prices to Jeju, Japan, and Thailand, the price of outbound products to Jeju is relatively cheaper than others. In particular, the commission paid to the Chinese tour agency for the number of tourists they attract to Korea causes problems. In particular, certain tour products are arranged to visit a few tourist attractions for free and then only focus on shopping instead of visiting famous tour spots. To solve such problems, diverse efforts are necessary through cooperation among the industry, the government, and academia.

- Song Yoon-Sim (Tourism Industry Officer, Tourism Industry Department, Jeju Special Self-Governing Province)
 - I think the commission fees paid to tour agencies in relation to the number of tourists or minus fee tour products generate an inappropriately large amount of commission fees. We are conducting onsite investigations to identify the best alternatives. Commission fees are high for shopping and such issues cannot be naturally solved without our efforts.

- Jang Moon-Bong (Officer of Tourism Policy team, Tourism Policy Department of Jeju Special Self-Governing Province)
 - The core agenda is how we can solve problems due to low-priced tour products. We all agree that there are problems. But regulation on a certain type of business such as duty free stores would not be the answer. If we regulate a certain business, the commission fees will move to other businesses. It cannot be eradicated.
 - Legislative solutions on the low-priced product issue can be considered with several possible options, but such an approach itself has both a positive and negative side. So, we need to be cautious about enforcing any regulations.

- Jeju Tourism Organization is proactively suggesting various policy solutions to provide measures to solve pending issues in this regional society.
- We would like to come up with more reasonable and forward-looking alternative solutions that can be made based on the results of this workshop in order to contribute to the increased quality of life for Jeju residents and to the region's development.



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